

STATE OF ARIZONA TREASURER'S OFFICE

1700 WEST WASHINGTON STREET
PHOENIX, ARIZONA 85007



REQUEST FOR PROPOSAL # 13-01
FOR
MASTER CUSTODY SERVICES

August 29, 2013

Doug Ducey, State Treasurer

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INTRODUCTION

1. INTRODUCTION

This document constitutes a Request for Proposal via competitive sealed proposals, from qualified individuals and organizations to perform the Scope of Work set forth herein.

2. SUMMARY OF INVESTMENT PROGRAM

The State of Arizona Treasurer's Office is entrusted with a variety of funds for safe-keeping and investing. Depending on the source of funds, they can be invested in overnight cash investments to long-only equities for Endowment assets. As of June 30, 2013, total assets under management (AUM) was \$13.2 billion.

Approximately \$8.1 billion of the assets are managed on a mutual fund basis across seven fixed income funds, with one mutual fund being managed with both an internal and external portfolio manager, \$913 million in four separately managed fixed income accounts and \$4.15 billion is invested in pooled endowment assets for 13 distinct beneficiaries in U.S. equities and investment grade fixed income securities. Some funds, such as the Endowment, are managed on a total return basis, others on a yield basis. Two funds are operated as constant \$1 Net Asset Value funds with a weighted average maturity of under 90 days, five funds are managed with a duration between one and two years, three are managed between two and three years and one is managed at a five plus year duration.

More than 95% of the funds are managed internally, with two funds managed by an external manager, currently US Bancorp Asset Management.

The office has recently conducted asset allocation studies for the Endowment and is studying the feasibility of diversifying asset classes for the Endowment in the future if so directed by the Trustees of the Endowment, the State Board of Investment. Per the Arizona Constitution, the Endowment can only invest in publically traded securities or safe interest bearing fixed-income securities. New asset classes may include specific allocations to U.S. TIPS; U.S. REITS, and U.S. Public Natural Resources. Future allocations could expand to include global equities and investment grade bonds. Finally, management of funds and new asset allocations may include placing funds with external managers for both investment management and custody.

This Request for Proposal is being issued to satisfy a need for master custodial services by an institution to act as the Treasurer's agent in the safekeeping and handling of all securities and cash at any time delivered to custodian, provide fund accounting, monthly mutual fund statements to participants (transfer agency), performance analytics/ reporting, and securities lending.

Authority for the investment program is derived from the Arizona Constitution and Arizona Revised Statutes, Title 35, Chapter 2, Article 2. Respondents are to provide solutions for all services requested under the scope of services as well as answer all questions asked under the questionnaire.

SPECIAL INSTRUCTIONS TO BIDDERS

1. **Definition of Terms.** As used in these Instructions, the terms listed below are defined as follows:
 - 1.1 *"ASTO"* means the Arizona State Treasurer's Office.
 - 1.2 *"Attachment"* means any item the Solicitation requires a Bidder to submit as part of the Offer.
 - 1.3 *"Contract"* means the combination of the Solicitation, including the Uniform and Special Instructions to Bidders, the Uniform and Special Terms and Conditions, and the Specifications and Statement of Scope of Work, the Offer and any Best and Final Offers, and any Solicitation Amendments or Contract Amendments.
 - 1.4 *"Contract Amendment"* means a written document signed by the ASTO that is issued for the purpose of making changes in the Contract.
 - 1.5 *"Contractor"* means any person who has a Contract with the State.
 - 1.6 *"Days"* means calendar days unless otherwise specified.
 - 1.7 *"Exhibit"* means any item labeled as an Exhibit in the Solicitation or placed in the Exhibits section of the Solicitation.
 - 1.8 *"Offer"* means bid, proposal or quotation.
 - 1.9 *"Bidder"* means a vendor who responds to a Solicitation.
 - 1.10 *"Solicitation"* means an Invitation for Bids ("IFB"), a Request for Proposals ("RFP"), or a Request for Quotations ("RFQ").
 - 1.11 *"Solicitation Amendment"* means a written document that is signed by the ASTO and issued for the purpose of making changes to the Solicitation.
 - 1.12 *"Subcontract"* means any Contract, express or implied, between the Contractor and another party or between a subcontractor and another party delegating or assigning, in whole or in part, the making or furnishing of any material or any service required for the performance of the Contract.
 - 1.13 *"State"* means the State of Arizona and Department or Agency of the State that executes the Contract.

2. **Proposal**

Proposals are due at the address listed below on or before 4:00 p.m. (MST) on October 1, 2013. Responses must include an original plus three (5) additional copies that will be used in the evaluation process. The original copy of the proposal should be clearly labeled "ORIGINAL". The material should be in sequence and related to the Request for Proposal. Proposals received after the date and time specified herein will not be considered. Proposals shall be opened publicly at the time and place designated on the cover page of this document. The name of each bidder shall be read publicly and recorded. All other information contained in the proposals shall be confidential so as to avoid disclosure of contents prejudicial to competing bidders during the process of negotiation. Prices will **NOT** be read. Proposals will not be subject to public inspection until after contract award. Proposals shall be irrevocable offers for one-hundred twenty (120) days after the proposal due date.

Office of the State Treasurer
Attn: Carlton Woodruff, Deputy Treasurer of Operations
1700 W. Washington
Phoenix, AZ 85007

3. Evaluation

An award shall be made to the responsible bidder whose proposal is determined in writing to be the most advantageous to the State based upon the evaluation criteria listed below. The bidder is cautioned that it is the bidder's sole responsibility to submit information related to the evaluation categories and that the State of Arizona is under no obligation to solicit such information if it is not included with the bidder's proposal. Failure of the bidder to submit such information may cause an adverse impact on the evaluation of the bidder's proposal as to the responsiveness of the proposal and the responsibility of the bidder.

Cost	25%
Conformance to Scope of Work	25%
Questionnaire	50%
Method of Approach	
Experience	
TOTAL:	100%

3.1 Cost. The bidder must provide a firm, fixed price for all requirements set forth in this Request for Proposal. All firm, fixed prices must be shown on the pricing schedule of this RFP (Exhibit 1) which must be completed and returned with bidder's proposal.

3.1.1 Pricing

3.1.1.1 Provide a price schedule for all required services using the bid form (Exhibit 1). The only fees that will be accepted as a valid proposal are those listed on the original bid form.

3.2 Conformance to Scope of Work. The bidder must present a written narrative which demonstrates the method or manner in which the bidder proposes to satisfy the requirements of the Scope of Work. The language of the narrative should be straight forward and limited to fact, solutions to problems, and plans of proposed action. Please include a detailed transition plan including but not limited to the following information:

3.2.1 Implementation

3.2.1.1 Provide a copy of all agreements that will be required to initiate services.

3.2.1.2 Provide a detailed description of the implementation process, including testing, and a sample implementation schedule.

3.2.1.3 What is the average lead time required for implementation?

3.2.1.4 Describe materials available and/or any on-site training that you provide.

3.2.1.5 Do you assign an implementation team?

4. Basic Minimum Qualifications

4.1 Candidate has a minimum of \$100 billion of total assets under custody as of June 30, 2013.

4.2 Candidate has a minimum of 10 U.S. public fund master custody clients as of June 30, 2013.

4.3 Candidate has provided custody services for short term fixed income mutual funds for at least 10 years, public or private, with public preferred.

4.4 Candidate has a minimum of 10 years in the global master custody business as

of June 30, 2013.

- 4.5 The primary Client Service representative assigned to the account must have had a minimum of ten (10) years' experience in the master trust/custody field working with mutual funds AND endowments and at least three (3) years of employment at the responding firm.

5. **Proposed Timeline**

<u>Event</u>	<u>Date</u>
Distribution of RFP	August 29, 2013
Pre-Bid Conference	September 12, 2013 @ 1 p.m. Arizona Time Treasurer's Conference Room
Deadline for questions	September 17, 2013 @ 2 p.m. Arizona Time
Date for answers to questions	September 24, 2013 @ 5 p.m. Arizona Time
Proposals due (no later than 4 p.m. Arizona time)	October 1, 2013
Finalist presentations (if necessary)	TBD
Due diligence and site visits (if necessary)	TBD
Award business (date contingent on final negotiations)	TBD
Contract start date	on or after April 1, 2014

6. **Fund Account Structure**

Funds	Account Type	Approximate Market Value 6/30/2013
Domestic Equity Large Cap	Mutual Fund	\$1.56 billion
Domestic Equity Mid-Cap	Mutual Fund	\$ 677 million
Domestic Equity Small Cap	Mutual Fund	\$ 398 million
Endowment Fixed Income	Mutual Fund	\$ 1.52 billion
STFI US Treasuries	Mutual Fund	\$ 1 billion
STFI US Diversified	Mutual Fund	\$ 2.56 billion
STFI US Agencies	Mutual Fund	\$ 1.56 billion
STFI US Diversified	Separate Account	\$ 325 million
STFI US Diversified	Separate Account	\$ 286 million
STFI US Diversified	Separate Account	\$ 12 million
STFI US Tax-exempt	Separate Account	\$ 289 million*
STFI US Diversified	Separate Account	\$ 100 million*
*Externally managed		
\$1 NAV Diversified	Mutual Fund	\$1.19 billion
\$1 NAV US Treasuries	Mutual Fund	\$1.17 billion
STFI Div. Floating NAV	Mutual Fund	\$ 289 million
STFI USTs Floating NAV	Mutual Fund	\$ 231 million

7. **Questionnaire**

IN ANSWERING EACH QUESTION, UNLESS SPECIFIED OTHERWISE, THE TERM CUSTODY DEPARTMENT INCLUDES FUND ACCOUNTING, PERFORMANCE REPORTING, TRANSFER AGENCY AND SECURITIES LENDING. YOUR RESPONSE SHOULD REFLECT EACH OF THESE FUNCTIONS.

CORPORATE OVERVIEW

BACKGROUND SUMMARY

1. Provide a brief history of your Custody organization.
2. Please summarize your Custody Department's long-term strategy for business development.
3. Please describe any organizational changes (mergers, acquisitions, alliances) of the past two years that have affected your Custody operations. Specifically, what adjustments have or are occurring as a result of these organizational changes?
4. Please list your current credit rating by Moody's or S&P. In addition please list the percentage of Tier 1 capital and leverage ratio.
5. Briefly summarize your firm's competitive advantages within the Custody industry.
6. What percentage of total corporate earnings did your Custody Department contribute to your organization each year over the last five years?
7. Please indicate your organization's quantity of relationships (total number of clients) and assets (market value) in each of the Custody areas. Of these combined assets, what proportion and asset base are represented by Mutual Funds between \$200 million and \$3 billion and Endowments between \$4 billion and \$6 billion?
8. Please indicate how your firm maintains its independence.
9. Does any foreign entity have any control or financial interest in your bank? If so, please identify and describe the relationship.
10. Will you be subcontracting, or executing key facets of the custody process through 3rd party vendors, any of the work described in these specifications? If so, explain.
11. What was the custodial client turnover (gains and losses) of your firm over the last three years?
12. How many clients, public and private, do you serve that have asset sizes similar to the State of Arizona Treasurer's Office?
13. Please provide a brief description of any past or pending regulatory action, litigation or other legal proceedings involving your Custody Department, Securities Trading Department, or any registered employees and/or principals.
14. Does your firm consider itself to be a fiduciary with respect to the services provided? Is this stated in writing within your contract, and if so, how is it stated specifically?
15. Describe what limitation of liability, if any, your company imposes through its contract.
16. Please attach a sample client contract, with ALL addenda and attachments.

CLIENT SERVICING CAPABILITIES

1. Describe your approach to client service. Include a discussion of the procedures relative to client interaction. Does each client have a primary contact to whom all inquiries are directed? What coverage is provided if those responsible for an account are unavailable?
2. Briefly describe the organizational structure of your Custody Department, including an organizational chart and the total number of employees in each area.

3. Describe the roles and number of people who would be assigned to this account, their total years in the industry, their total years with your organization and their total number of years in custody if different from organization. Where would they be located? To how many client accounts would this team be assigned?
4. Do you have programs in place designed to retain key personnel? If so, describe.
5. Describe quality control programs you have within your Custody Department.
6. In what ways do you distinguish yourself from other Custody providers in the area of client relations?
7. Do you have a dedicated Custody legal staff?
8. How often will the client service officer meet with the client at the client's office?
9. Will specific members of your staff be assigned to this account? If so, please provide their names, educational and experience backgrounds.
10. Do you have a disaster recovery program in place? If so, describe in detail.
11. Describe the time requirement and termination charges (if any) required by your firm if your services are terminated.

SYSTEMS AND DATA-PROCESSING

1. Discuss the hardware and software systems that support your Custody Department.
2. How long has the current software been in place? When was the most recent major change/enhancement to the systems that support your Custody capabilities?
3. Was the software developed in-house? Do you have a data-processing staff in-house? How many persons actually support your system? If the software is provided by a third-party please provide that information.
4. Could Bloomberg AIM be supported for the transmittal and retrievable of data, specifically security trades.
5. What major enhancements are planned at this time?
6. Is your data-processing equipment shared with other departments? If so, what is the priority level for Custody?
7. Describe the data-processing cycle for creating daily, monthly and annual reports.
8. What system security measures do you have in place?
9. Do you have a physically separate back-up facility? If yes, what is the location? Do you have your auditors prepare a SSAE 16 report? If so, please submit a copy of your most recent report.

ON-LINE SERVICES

1. Do you offer an on-line reporting service for clients and investment managers? If yes, how current is the information. What are system support availability hours?
2. In what formats is data available? With which commercial software programs is your data compatible?
3. What are your e-mail/internet capabilities with respect to client data retrieval?
4. What e-mail/internet security measures do you have in place?
5. Can non-standard reports be created by users with your on-line software? Does your system have a user-friendly report writer?
6. What client training do you provide for utilizing your on-line system?

RECORDKEEPING

ACCOUNTING AND REPORTING

1. Provide a complete description of your accounting system. What basis do you use (trade date or settlement date, accrual or cash)? Are you electronically linked with the depositories for same-day settlement?
2. Do asset valuations include accrued income and dividends, as well as all pending transactions?
3. How do you report interest and dividend income?
4. Can you capture and report brokerage commissions generated by a money manager?
5. Are you able to provide trade execution analysis and reports?
6. What reports do you typically provide? When are these reports made available? Are your reports formatted to facilitate the completion of government reports?
7. How long is your on-line data retention period?
8. What steps are taken to ensure the accuracy of your reports? What data reconciliations are performed? Are final monthly reports audited before they are made available to clients? If so, by whom?
9. Please provide a sample set of standard daily and monthly reports. Include a list of all available report formats. How soon after the close of a month are complete sets of fully audited portfolio accounting reports delivered to the client in hard copy format? When are these reports available on-line?
10. Describe the daily, weekly, monthly, quarterly, and annual reporting timetables to which your organization would commit.
11. Do you provide book and market value reconciliations? How often?
12. Describe your reconciliation process to verify monthly pool earnings against earnings posted to Transfer Agency accounts within the pool.
13. What procedures are used to verify the accuracy and completeness of dividend and income receipts?
14. Where is your accounting group located?
15. How quickly can a new investment pool be added to the accounting structure?
16. Does your platform provide full integration with Bloomberg AIM? Describe your facility to transfer holdings from your platform to AIM. What reconciling differences, if any, exist? Be prepared to demonstrate this facility with an existing Arizona Treasury portfolio.
17. Provide a detailed listing of accretion / amortization methodologies (FAS115) and the security types supported by those methods.

CORPORATE ACTIONS AND PROXY VOTING

1. What services do you utilize for corporate actions?
2. Are you responsible for initiating corporate action claims on behalf of the Plan?
3. Do you have a centralized corporate action area? What procedures and control points are used to monitor outstanding corporate actions?
4. Who is responsible for communicating corporate action information to the client? Is there a process in place to provide feedback on settlements or outstanding claims?
5. Describe your proxy voting services?

6. Please provide a sample semi-annual report that identifies corporate actions filed and settlements received.

TRANSFER AGENCY

1. Provide a complete description of your transfer agency system.
2. Do you provide a web-based portal for clients to make transactions? Describe the security controls. Is there a 'View Only' capability for users of the web-based portal?
3. Describe the process of entitling new users to the web-based system. What role in this process, if any, would the Treasurer's Office have?
4. What reports do you typically provide? When are these reports made available? Please provide examples of daily "deposit/withdrawal" transaction reports and daily account balance reports.
5. How soon after the end of the month are participant statements made available? How are they distributed?
6. What options do clients have to view/receive their statements?
7. What is the length that statements can be stored in the system?
8. Can prior statements be loaded into the system?
9. How long does it take to open up a new account?
10. What information can be displayed on statements?
11. Can average balances of a specified time period be provided?

ASSET SAFEKEEPING

1. Describe your system for registration and custody of assets, including depositories used.
2. How and where are physical settlements transacted?
3. How do you track the accuracy in your custody and clearing area?
4. Please provide the following information concerning pricing:
 - a. What is the source of your pricing data for equity and fixed income securities? Include pricing sources for foreign assets and currencies.
 - b. What procedures do you have in effect, if any, to identify and investigate unusual or significant pricing changes?
5. How do you handle information on corporate activities (i.e., tender offers, exchange offers, splits, etc.)?
6. Describe how you monitor and distribute proxy information.
7. Briefly describe your global custody capabilities, highlighting those items which set you apart from your competition.
8. What selection criteria do you use to select your global sub-custodians?
9. Outside of the United States, do you use any central depository facilities? Are they used for international clearing?
10. How are trade settlements communicated?
11. Is there a real-time trade settlement report system?
12. Describe your ability to handle foreign exchange transactions.

13. How do you handle tax reclaim processing?

AUDIT CONTROLS AND PROCEDURES

1. Is there a general audit system in place? Is it certified by an outside public accounting firm?
2. Discuss the scope of your most recent audit.
3. What levels of management review result from audit reports, and who is required to implement changes to correct audit deficiencies noted?
4. How much fiduciary insurance do you carry? Describe any and all insurance that would cover a client's assets.
5. Do you have errors and omissions and/or other insurance coverage for the protection of your clients? If so, please describe (including any limitations on liability). Please attach a copy of the certificate of insurance.

TRANSITION PLAN

1. Describe a proposed custodian transition process and timetable.
2. Describe the factors that could change the proposed transition process and timetable.
3. What specific technical and human resources would you provide during the conversion?

CLASS ACTION FILING SERVICES

1. Describe your capabilities with respect to assisting clients in filing claims on behalf of the class actions.
2. Please explain how fees are charged with regards to filing claims on the client's behalf as well as an estimated fee range.

CASH MANAGEMENT

1. What short-term investment vehicles do you offer? What are the respective fees?
2. Describe, in detail, your buy/sell fail procedures. Are dollar amounts "netted" together?
3. If your client is in a net buy fail position, how are the related cash monies handled?
4. How are overdrafts handled? What are the charges if any for an overdrawn position?
5. Did any of your organization's short-term investment vehicles "break the buck" in the past five years or experience an impairment to daily liquidity? If so, what was your firm's response to clients who may have suffered losses (realized or unrealized) and were any capital support programs offered by your organizations?

PERFORMANCE MEASUREMENT AND ANALYTICAL SERVICES

1. Describe the performance evaluation services you presently offer, including attribution analysis reports. What analytic platform supports this process? Do clients have access to this platform to further analyze their holdings?
2. Describe the internal infrastructure used to provide these services (i.e., organizational hierarchy, resources, etc.).
3. Describe the methodology used to calculate performance measurement.
4. Can you compare managers' rates of return to a substantial universe of similar portfolios?
5. Is your platform capable of providing a detailed attribution analysis? Be prepared to provide this analysis for a selected Arizona Treasury Portfolio.
6. Provide a detailed listing of fixed income instruments supported by your analytic platform. Note "Structured Notes" and "Mortgage Securities" are broad categories. Include a complete listing of those items supported and those that are not supported.
7. Do you adjust market values used in performance calculations for accruals?
8. What are the sources of your performance measurement and manager analytic information?
9. List all market indices available.
10. How often and how soon after month-end are performance measurement reports available?
11. Do you provide broker trade analysis? Can you provide information identifying commission and implicit execution costs by broker, and by portfolio? Please describe your capability in this area in detail.
12. Provide a sample of the performance measurement information that you normally send to your clients.
13. Can you backload prior years' monthly performance data? If yes, please describe and give the number of years of data that can be back-loaded.
14. Describe your procedures for auditing rates of return calculated.
15. What is your procedure for calculating performance for periods that contain large cash flows? (>10% of market value)
16. Can you provide detailed attribution analysis on both sector and individual security basis versus benchmark indices? Describe capabilities and include sample reports for equity and fixed income portfolios.
17. Do you have any other significant performance measurement or analytic services not addressed in the above questions?

ASSET TRANSITIONS/MANAGEMENT

1. Describe your transition management capabilities with respect to assisting clients in implementing significant asset transitions/restructurings.
2. Do you offer internal trade crossing/swapping opportunities to help clients achieve low-cost transitions between managers? If so, what was the volume of internal crosses/swaps executed during 2012, 2011, 2010, and 2009?

SECURITIES LENDING

1. In what year did you first offer securities lending?
2. How many clients currently participate in securities lending? What is the dollar size of your securities lending pool?
3. How do you protect against excess risk and loss? Describe with specific details your loss indemnification program.
4. Describe your policy for screening borrowers.
5. Please provide a current list of the brokers approved for lending.
6. How many brokers on your approved list are actually used (i.e., does 75% of your lending actually go to a small number of brokers)?
7. What is the maximum loan made to a single broker?
8. What percentage of collateral do you require? Do you require collateral to cover both market value and accrued income?
9. What forms of collateral do you accept?
10. What is the credit quality of your collateralized pool?
11. Describe the procedures and the frequency of marking collateral to market.
12. How is the collateral invested? Do you allow clients to have separate accounts for invested cash collateral? Do you allow clients to invest the cash collateral themselves?
13. For direct lending services do clients have a choice of collateral pools? If yes, please provide a factsheet or prospectus for each pool.
14. Have you ever experienced any impairments to your collateral pools? If so, how was this handled?
15. Describe the allocation system used in determining which clients' securities are loaned.
16. What lending reports are made available to clients?
17. Do you offer international lending? If yes, please describe.
18. What percentage of the income generated from securities lending is shared with your clients?
19. Given the summary of the investment program enclosed with this Request for Proposal, what would be the approximate annual income generated by your securities lending program?
20. How do you coordinate securities lending activity with the client's investment managers?
21. Is there any pending litigation with respect to the securities lending program. Please state whether cases have been filed, whether they are class actions, identify the plaintiffs making the complaints, and provide, if possible, a summary of the claim or a copy of the complaint including information on the counsel involved.
22. Describe your compliance process related to your securities lending program. Please provide sample reports.

INVESTMENT MANAGER RECONCILIATION PROCESS

1. Does your organization have a separate investment manager liaison group that handles the reconciliation process? If so, please describe the structure of the group and how it communicates with the accounting group. If not, please describe how investment manager relationships are handled?
2. Please describe the role your organization plays in the investment manager reconciliation process.
3. Do you currently have accounting and reporting relationships with US BANCORP Asset Management?
4. What information delivery system do you offer investment managers? How is this system different from the information delivery system used by clients? If this is a different system, why? Are managers offered the capability to view their accounts on a real-time basis? Is sufficient data available so managers can reconcile on a daily basis?
5. How do investment managers communicate trade instructions to your organization for settlement? What are the instruction deadlines?
6. Does your organization monitor tolerance levels for pricing discrepancies with investment managers? How are pricing challenges resolved?
7. Please comment on procedures when follow-up is required as a result of discrepancies identified during the reconciliation process.
8. Describe your pricing procedures, (i.e. use of pricing vendors, dialogue between your organization and pricing vendors) including your pricing capabilities of derivatives, including swaps (total return, credit default, etc.).

FOREIGN EXCHANGE TRANSACTIONS (The following is information only)

1. Within international separate account portfolios, what is your pricing policy and procedures for competitive and auto-repatriated foreign-exchange trades (i.e. dividends, interest, etc.)?
2. How does your firm monitor and evaluate the execution of the local "sub-custodian" foreign-exchange executions
3. What area handles foreign exchange contracts within your organization? Have there been any recent personnel changes with regards to senior management?
4. Are managers given a choice to as to whether or not they want use the custodian for foreign contracts?
5. When a foreign contract request is initiated by the manager do you execute the contract right away or will the request become part of a batch process to be executed at a later time?
6. How are the rates which foreign contracts are executed, arrived at?
7. Do you track your execution relative to the daily average for each currency? Is this information available to clients and consultants?

8. What is the cost associated with a foreign exchange contract? Is there a flat fee or is the cost embedded in the spread?
9. Are there any countries with which you will not process a foreign currency exchange contract with?

Compliance Reporting

1. Does your organization have a guideline and compliance-monitoring system?
2. Describe the different compliance monitoring services provided to clients?
3. How long has your organization offered these tools to clients?
4. How many clients utilize this service?
5. Is this automated? What reports are generated for exceptions to the rules set up by the client?
6. Who in your organization is responsible for monitoring compliance and how does that individual and/or group communicate compliance-related information to your clients?
7. Do you currently provide a compliance monitoring service in which you take responsibility for notifying the client when violations occur? If yes, how many clients do you provide this service to and describe any additional fees that might be associated with this service.

REFERENCES

1. Please provide a list of clients that have converted to your organization in the past twelve months, including the dates of conversion.
2. Indicate the numbers of Mutual Fund families and Endowments of similar nature that you currently serve. Please furnish client references.
3. Please list the five money managers who have the largest market values under your custody.
4. Please list clients that have departed your organization in the past twelve months.
5. Please list five references for clients with similar structures and sizes to the State of Arizona Treasurer's Office, and that utilize any services you provide that support this structure (i.e., multiple mutual funds/short to long-term investments) with at least three of these references utilizing the same client service team you are proposing for this mandate. For how long has each been a client of your organization?
6. Please list five client references for the client service representative that will be assigned to this account.

OFFER AND ACCEPTANCE

Offer

The undersigned hereby offers and agrees to furnish the material, service or construction in compliance with all terms, conditions, scope of work and amendments to the solicitation.

By: _____

Title _____

Company _____

Date _____

By signature in the offer section above, the bidder certifies:

1. The submission of the offer did not involve collusion or other anti-competitive practices.
2. The bidder shall not discriminate against any employee or applicant for employment in violation of Federal Executive Order 11246, State Executive Order 99.4 or A.R.S. 41-1461 through 1465.
3. The bidder has not given, offered to give, nor intends to give at any time hereafter any economic opportunity, future employment, gift, loan, gratuity, special discount, trip, favor, or service to a public servant in connection with the submitted offer. Failure to provide a valid signature affirming the stipulations required by this clause shall result in rejection of the offer. Signing the offer with a false statement shall void the offer, any resulting contract and may be subject to legal remedies provided by law.

Acceptance

The Offer is hereby accepted.

Office of the State Treasurer

By: _____

Title _____

Date _____

SCOPE OF WORK

1 General Requirements

- 1.1 The ASTO will appoint the successful bidder (hereinafter called the "Institution"), as his agent for full master custody services for all assets managed by the ASTO and its investment managers including the safekeeping and handling of all Securities and cash delivered during the term of the agreement, and the Institution agrees to accept such appointment.
- 1.2 The Institution, at the direction of the ASTO, will provide for transfer of securities and cash from the Institution currently holding the securities prior to April 1, 2014, or on another date if so authorized by the ASTO. The new Institution shall be responsible for the safe transport and delivery of the securities. Transfer of the present securities portfolio will be "free delivery" at no cost to the ASTO. At the conclusion of this contract, any transfers will likewise be at no cost to the ASTO.
- 1.3 The Institution shall accept possession of, and be responsible for the safekeeping of such securities and cash as are delivered to the Institution including electronic delivery via straight through processing systems used by ASTO.
- 1.4 The term of this contract shall begin on April 1, 2014 and will end at the close of business on March 31, 2017. In addition, the contract can be extended for two (2) one year renewal periods as noted in the SPECIAL TERMS AND CONDITIONS.
- 1.5 The ASTO will be entitled to cause delivery or withdrawal from the Institution's possession, during the Institution's normal business hours, any such securities or cash held by the Institution.
- 1.6 Securities will be deposited with the Institution or withdrawn from the Institution's possession.
- 1.7 The Institution will exercise the same degree of care to determine the genuineness of any securities delivered to it, or in its possession, as it would for its own securities. The ASTO shall be provided statements and reports of all transactions as required - including all corporate actions.
- 1.8 The Institution shall provide via modem or secure Internet access to the ASTO, State Agency or Department and Depositor a PC-based data retrieval system that will enable the Treasurer to have read and print access of records of securities then on deposit with the Institution. The system should allow the State to obtain and print security portfolio valuation and daily transaction reports. The Institution will allow the ASTO to download data via modem or Internet.
- 1.9 Audits to determine the physical presence of securities deposited with the Institution will be made by the Auditor General pursuant to law and as desired by the ASTO, who (or who's authorized representative) will be entitled to verify the securities in the Institution's possession at reasonable intervals. All information furnished with respect to audits or confirmations to any department or agency of the State of Arizona other than the ASTO will be the responsibility of the Institution.
- 1.10 The successful bidder will be required to adapt to any new asset classes or investment vehicles the Treasurer may invest in as well as interface with any external investment managers selected by the Treasurer.
- 1.11 The bid price shall be submitted using the attached Pricing Schedule (Exhibit 1).
- 1.12 Provide client support so telephone calls are responded to within 60 minutes, trading issues are corrected within 20 minutes, and accounting errors are fixed within 3 days.

2 Specific Requirements

- 2.1 The contractor shall provide full master custody services for all assets managed by the ASTO and its investment managers, including both domestic and international securities.
- 2.2 Master custody services shall include, but not be limited to, securities accounting, safekeeping, investment performance calculations, and reporting, maintaining a

comprehensive database accounting system to account for and report the transactions associated with the entire ASTO portfolio and transfer agency services.

2.2.1 Accounting

- 2.2.1 Provide daily full accrual accounting of all of the ASTO's investments and securities on a portfolio/pool basis
- 2.2.2 Daily accounting for all investments and asset classes contained in all portfolios.
- 2.2.3 Comprehensive daily pricing system.
- 2.2.4 Automatic posting capability for scheduled events.
- 2.2.5 Daily update of book values for accretion and amortization by the appropriate accounting method.
- 2.2.6 Investment reporting at cost and market values with appropriate amortization for fixed income securities in accordance with generally accepted accounting principles.
- 2.2.7 Customized report writing capabilities.
- 2.2.8 Standard period reporting.
- 2.2.9 Provide all reporting for Governmental Accounting Standards Board (GASB) 40 disclosure requirements at fiscal year-end.
- 2.2.10 Technical assistance for GASB, Financial Accounting Standards Board (FASB) update implementation.
- 2.2.11 Interface with ASTO's internal general ledger via data export or direct interface.
- 2.2.12 Interface with straight-through trade feed/processing system.
- 2.2.13 Ability to calculate earnings, yield, daily Net Asset Value (fixed and floating) on a daily basis.
- 2.2.14 Account for securities lending activities on a monthly basis.
- 2.2.15 Support mutual fund, commingled fund, and unitized fund accounting depending on the characteristics of the ASTO's investment pool.
- 2.2.16 Ability to add new assets classes and or investment instruments.
- 2.2.17 Reconciliations.
- 2.2.18 Provide an accounting system with on-line access to the ASTO, the ASTO's investment managers, consultants, and auditors, and permit the secure downloading of data into a PC-based spreadsheet and/or database application.
- 2.2.19 Provide all expense paid training to ASTO both initially and as needed.
- 2.2.20 Provide an accounting administrator to be available by telephone between 8 a.m. and 5 p.m. Arizona Time with minimum response time of 60 minutes.

2.3 Claims/Settlements

- 2.3.1 Maintain on-line security clearing at the Depository Trust Company (DTC) and other security clearing operations for both book entry and physical settlements.
- 2.3.2 Affirm security transactions and validate holdings and income related to all trading activity.
- 2.3.3 Enable the ASTO to affirm all trades and provide a means to settle non-DTC-eligible trades.
- 2.3.4 Provide ASTO a real time system to settle daily trade activity.
- 2.3.5 Provide fail float protection, including interest on purchase fail float and contractual settlement date postings of sales.

- 2.3.6 Provide trade data to consultants and investment managers as requested by ASTO.
- 2.3.7 Provide settlement on a delivery versus payment basis.
- 2.3.8 Provide to the ASTO the benefit of all floats on all transactions, including failed transactions, by the zero balancing of Demand Deposit Accounts (DDA), into the custodial bank's short-term investment fund overnight.
- 2.3.9 Provide all wires to settle by 5 p.m. Eastern Standard Time.

2.4 Cash Management

- 2.4.1 Maintain daily sweep activity for the purpose of transferring uncommitted funds between individual external manager custody accounts and the ASTO's internal custody account to the ASTO's cash management account.
- 2.4.2 Provide an overnight investment vehicle that matches the investment mandate for each mutual fund to zero balance the ASTO's DDA's daily.
- 2.4.3 Credit the ASTO with the benefit of all floats on all transactions, including failed trades.
- 2.4.4 Collateralize all ASTO's cash on deposit with the Custodial Bank.

2.5 Corporate Action, Proxy, Class Action and Litigation Support

- 2.5.1 Provide proxies and proxy statements to the appropriate investment manager before annual and special meetings for corporations whose securities are held by ASTO.
- 2.5.2 Provide notification of pending corporate actions and applicable legislative actions.
- 2.5.3 Provide the appropriate investment manager with notification of corporate actions regarding subscriptions, conversion privileges, issuance of rights, mergers, reorganizations and other actions requiring a decision by the ASTO.
- 2.5.4 Provide a client-accessible system for monitoring class action litigation and bankruptcy proceedings affecting portfolio of securities held by the ASTO.
- 2.5.5 Provide a system of filing claim notices and other documents in connection with such proceedings.
- 2.5.6 Provide a system to track history of portfolio securities held during any periods that are the subject of such proceedings.
- 2.5.7 Provide a system to advise the ASTO and appropriate investment managers of significant dates and deadlines in respect of such proceedings, including but not limited to opt-out elections in class action litigation, deadlines for filing claims, deadlines for filing bankruptcy notice or claims.

2.6 Transfer Agency

- 2.6.1 Provide online banking capability for local government investment pool (LGIP) participants including the creation of LGIP participants' statements of account with calculation of earnings/yield and tracking of invested balances.
- 2.6.2 Customized report writing capabilities.
- 2.6.3 Provide monthly statements within 5 days after month end for participants.
- 2.6.4 Provide participants with a secured web-based portal to make transactions as well as view only access for participants.
- 2.6.5 Provide daily "deposit/withdrawal" transaction reports by fund/pool and

- daily account balance reports by fund/pool.
- 2.6.6 Provide report with balances, addresses, contacts, etc. by pool/fund as requested.
- 2.6.7 Provide Average Balances for a specified time period as requested for all accounts.
- 2.6.8 Provide interface with internal general ledger via data export for deposit/withdrawal transactions from the online banking system and for the posting of monthly interest.
- 2.6.9 Reconcile earnings between accounting and transfer agency by fund/pool before monthly statements are processed.
- 2.6.10 Provide dedicated person between hours of 7 a.m. and 5 p.m. to interface with LGIP participants to resolve any participant issues, including opening accounts, facilitating deposits and redemptions and correcting statement errors.
- 2.6.11 Provide up to 7 years storage capacity of statements, including prior years for participants.

2.7 Performance Measurement

- 2.7.1 Provide the ASTO with attribution analytics (daily linked attribution)
- 2.7.2 Comparison with benchmarks
- 2.7.3 Standard investment analytics for fixed income investments and equities
- 2.7.4 Portfolio characteristics
- 2.7.5 Index comparison reports by sector, industry, and security, updated for daily price and index changes
- 2.7.6 Provide the ASTO with on-line viewing and secure downloading from a single, browser-based tool into spreadsheet format access to the following information:
 - 2.7.6.1 Current and historical investment performance.
 - 2.7.6.2 Current and historical universe returns data.
 - 2.7.6.3 Current and historical prices and exchange rates.
 - 2.7.6.4 Composite portfolios.
 - 2.7.6.5 Current and historical transactions.
 - 2.7.6.6 Current and historical holdings in any aggregate. Individual and aggregate performance, attribution, analytics and benchmark comparisons at the fund group level, aggregate portfolio level, sector level, and individual security level. Performance and analytic databases.
 - 2.7.6.7 General ledger account activity and specific income cash inflows and balances.
 - 2.7.6.8 Investment transactions (principal payments, dividends, interest, amortization) and reports identified by security type which will distinguish for example government securities from corporate securities from mortgage-backed securities etc.

2.8 Portfolio Management

- 2.8.1 Provide operational and investment management support to the ASTO's internal investment management including but not limited to: Portfolio management support information and analytic; Portfolio characteristic reports; Index comparison reports; Cash flow forecasting capacity.
- 2.8.2 Provide online access to the following reports:
 - 2.8.2.1 Purchase and sales pending.
 - 2.8.2.2 Portfolio holdings on trade date basis detailing quantity, historic

- and book values.
- 2.8.2.3 Interest and dividends receivable.
- 2.8.2.4 Interest and dividends earned during designated periods.
- 2.8.2.5 Purchase and sell transactions.
- 2.8.2.6 Amortized and accretion of fixed income securities.
- 2.8.2.7 Cash flow projections for at least 30 days.
- 2.8.2.8 Corporate actions.
- 2.8.2.9 Performance measures.
- 2.8.3 Establish controls to prevent unauthorized transactions or unauthorized investment managers from updating files on securities.
- 2.8.4 Provide compliance monitoring in accordance with ASTO's investment policy guidelines.

2.9 Securities Lending

- 2.9.1 Obtain authorization for all types and numbers of securities lent.
- 2.9.2 Collateralize all lent securities, plus accrued interest, by cash or securities.
- 2.9.3 Collateralize all loans for domestic securities at one hundred two percent (102%) of market value, including accrued income.
- 2.9.4 Collateralize all loans for international securities at one hundred five percent (105%) of market value, including accrued income.
- 2.9.5 Monitor collateral levels daily and obtain additional collateral if and when mark-to-market values fall below 100%.
- 2.9.6 Obtain approval for all borrowers to whom the agency's securities are lent.
- 2.9.7 Daily collateralize and mark-to-market all loaned securities. Loans with insufficient collateral shall be adjusted within twenty-four (24) hours and prior to the securities subsequently being lent to the same borrower(s).
- 2.9.8 Provide indemnification against borrower default.
- 2.9.9 All transfer taxes, fees and costs associated with the transfer of the borrowed securities shall be paid by the successful contractor as they become due, and no later than upon the termination of each loan.
- 2.9.10 Post to the custody accounts earnings due by the tenth business day of each month, after deducting costs associated with ASTO straight through processing and trade capture system.
- 2.9.11 Accrue and account for all receivables earned.
- 2.9.12 The contractor, when investing cash collateral shall conform to ASTO's Investment policy or direction.
- 2.9.13 Provide compliance monitoring and reports in accordance with ASTO's investment policy guidelines for investing cash collateral from securities lending.

2.10 Portfolio Screening

- 2.10.1 Assist the ASTO in screening its aggregate portfolio at least annually for firms that are in violation of U. S. Policy in doing business with countries listed by the U. S. Department as terrorist-sponsoring states. Such screening shall be summarized in a format that includes the following information:
 - 2.10.1.1 Company name.
 - 2.10.1.2 Value of the investment held by the ASTO.

- 2.10.1.3 Country of exposure and the extent of tie to the country.
- 2.10.1.4 Main business activity of the company.
- 2.10.1.5 Assessment of the potential impact to the ASTO's portfolio.

3 **Reports**

The contractor shall establish and maintain the systems necessary to allow the ASTO to download electronic data from their database into PC-based spreadsheets and/or database applications for further processing, printing, and for making entries into other automated systems used by the ASTO. The contractor shall also establish and maintain a system to allow the ASTO to prepare consolidation reports of asset categories as necessary and electronically download these reports for further processing. The reports listed below shall be available on-line, in screen printable form and on hard copy by request, but is not all inclusive.

3.1 **Daily reports**

- 3.1.1 Completed transactions, consisting of security purchases and settlement costs, sales and income. These reports shall reflect the payment timing as either Same Day or Next Day funds.
- 3.1.2 Pending income and security purchases/ sales reports denoting the payment timing as either same day or next day funds.
- 3.1.3 Failed trade reports indicating the reason for and the compensation on the trade failure.
- 3.1.4 Reports reflecting the Fund's daily investment purchase and principal/ income collection.
- 3.1.5 Daily summary of all investment pools depicting outstanding shares, total net assets, NAV per share, net income, management fees charged, distribution rate, daily annualized yield, and month to date effective yield.
- 3.1.6 Pricing reports, bond ratings reports, pending income reports, collateral reports and maturity schedules.
- 3.1.7 Securities lending collateral reports, identifying daily collateral required and pledged for all holdings.
- 3.1.8 Investments for cash collateral from securities lending detailing along with weighted average maturity, credit quality, and issuer concentration.
- 3.1.9 Daily securities lending activity by investment pool/fund, gross earnings by pool/fund, rebates by pool/fund, fee charged by pool/fund, net income earned by pool/fund outstanding loans, including amounts by borrower.
- 3.1.10 Daily Market Value report by investment pool/fund and in aggregate for all fixed income securities that includes security description, daily pricing, amortized price, original cost, amortized cost value, accrued income, trade date, settle date, maturity, effective maturity, duration, effective duration, amortized target date, convexity, weighted average life, credit ratings, percentage that security is for the pool, security cusip, unrealized gains, losses, quantity, fair value, and market value plus accrued interest less liabilities.

- 3.1.11 Electronic file upload of security purchases, sales, maturities, interest and any other cash events by pool/fund.
- 3.1.12 Management fees charges by pool/fund and any other fees charged per ASTO.
- 3.1.13 Transfer Agency summary of deposit/withdrawal transactions by pool/fund.
- 3.1.14 Collateral reports for all cash held.
- 3.1.15 Analytics provided by a recognized vendor with access to that platform for end users. These include but are not limited to:
 - 1) Option Adjusted Duration and Convexity measures.
 - 2) Yield and credit curve perturbation methods.
 - 3) Dynamic scenario analysis across asset types.

3.2 Monthly and Quarterly Reports

The following reports shall be available on line no later than five (5) working days after the end of each month and ten (10) working days after the end of each quarter; and on hard copy no later than seven (7) working days after the end of the month and fourteen (14) working days after the end of each quarter for both individual investment managers and in the aggregate.

- 3.2.1 A monthly Board of Investment Report that details:
 - 3.2.1.1 Total earnings distributed by investment pool, comparisons with prior year and management fees collected and YTD distributions.
 - 3.2.1.2 Portfolio fact sheets that list earnings for month, NAV, Yield, Benchmark Yield. Weighted Average Maturity for \$1 NAV pools, Weighted Average Life for all others, Effective Duration, Credit quality, distribution of duration, asset types, and credit quality and top 10 holdings of each fund. Each portfolio fact sheet should also include graphical display of yield over time and fund balances.
- 3.2.2 Reports detailing market performance, portfolio performance, and any aggregate deemed necessary by the ASTO. These reports shall include current and historical data. Preliminary performance data must be available within three (3) business days after the end of month, and final performance data must be available within seven (7) business days after the end of the month. Total Fund Quarterly Attribution must be available within seven (7) business days after final performance data is available.
- 3.2.3 The ability for ASTO personnel to revise reports as required.
- 3.2.4 Fixed income analytic and performance attribution reports
- 3.2.5 Tracking of brokerage commissions paid by individual and groups of managers to specific brokers, including tracking specific service classes by a manager and groups and the commission per dollar of cost and per share by broker.

- 3.2.6 The following reports shall be available to the ASTO no later than ten (10) working days after the end of the month.
 - 3.2.6.1 Monthly summary of the average volume of securities loaned, top ten borrowers, income received, top securities lent out.
- 3.2.7 Capability to report client information in a manner consistent with the ASTO General Ledger Account breakdown.
- 3.2.8 Custom design reports for Investment Accounting.
- 3.2.9 Report of shares, cost, market, and unrealized gain for each of the thirteen endowment funds comingled into 4 custody pool/funds.
- 3.2.10 Transfer Agency summary of account balances by pool/fund including account number, name of account, address, and when account was established.
- 3.2.11 Electronic file upload by Transfer Agency account into internal general ledger.

3.3 End of Fiscal Year reports

- 3.3.1 Provide a report of all holdings by pool/fund, security description, security category/type, security ID, par, market price, market value, amortized book value, unrealized gain or loss, accrued interest receivable, dividends receivable, securities purchase and sales receivable, liabilities such as management fees, and other pertinent investment data to be used in the compilation of GASB 40 reporting, in a format to be agreed upon, no later than thirty (30) days after the end of the fiscal year.
- 3.3.2 Provide a fiscal year report for all deposits, withdrawals, and interest for all transfer agency accounts by pool/fund.
- 3.3.3 Have the ability to custom-design reports for the board and auditors.
- 3.3.4 Provide any other reports as needed for financial statement purposes or other purposes.

4 Transition and Conversion

- 4.1 Names and resumes of staff who will be assigned by the Custodial Bank to the transition/conversion.
- 4.2 A calendar of events to meet the proposed April 1, 2014 contract start date.
- 4.3 A schedule of planning and training that the contractor will offer to both the ASTO staff and the ASTO's current custodial and depository banks.
- 4.4 References for a description of the contractor's most recent conversion of similar magnitude for this scope of work and details of problem resolution during the conversion.
- 4.5 An estimate of all ASTO's resources required for the conversion

process.

- 4.6 The plan to provide participant statement processing.
- 4.7 The plan for parallel testing of investment accounting, transfer agency and performance reporting prior to April 1 start date.
- 4.8 The dates by which transaction histories will be developed, test procedures established, and accruals established.
- 4.9 Custodian will reconcile custody positions to prior custodian's records, research all reconciling items, and correct all position discrepancies.
- 5.0 The facility, prior to complete transfer of relationship, to run in parallel with the existing platform and the requisite staff expertise to assess and explain differences.

UNIFORM INSTRUCTIONS TO BIDDERS

B. Inquiries

1. Duty to Examine. It is the responsibility of each Bidder to examine the entire Solicitation, seek clarification in writing (inquiries), and examine its' Offer for accuracy before submitting the Offer. Lack of care in preparing an Offer shall not be grounds for modifying or withdrawing the Offer after the Offer due date and time, nor shall it give rise to any Contract claim.
2. Solicitation Contact Person. Any inquiry related to a Solicitation, including any requests for or inquiries regarding standards referenced in the Solicitation shall be directed solely to the Solicitation contact person. The Bidder shall not contact or direct inquiries concerning this Solicitation to any other State employee unless the Solicitation specifically identifies a person other than the Solicitation contact person as a contact.
3. Submission of Inquiries. The ASTO or the person identified in the Solicitation as the contact for inquiries requires that an inquiry be submitted in writing. Any inquiry related to a Solicitation shall refer to the appropriate Solicitation number, page and paragraph. Do not place the Solicitation number on the outside of the envelope containing that inquiry, since it may then be identified as an Offer and not be opened until after the Offer due date and time. The State shall consider the relevancy of the inquiry but is not required to respond in writing.
4. Timeliness. Any inquiry or exception to the solicitation shall be submitted as soon as possible and should be submitted at least seven days before the Offer due date and time for review and determination by the State. Failure to do so may result in the inquiry not being considered for a Solicitation Amendment.
5. No Right to Rely on Verbal Responses. A Bidder shall not rely on verbal responses to inquiries. A verbal reply to an inquiry does not constitute a modification of the solicitation.
6. Solicitation Amendments. The Solicitation shall only be modified by a Solicitation Amendment.
7. Pre-Offer Conference. If a pre-Offer conference has been scheduled under this Solicitation, the date, time and location shall appear on the Solicitation cover sheet or elsewhere in the Solicitation. Bidders should raise any questions about the Solicitation or the procurement at that time. A Bidder may not rely on any verbal responses to questions at the conference. Material issues raised at the conference that result in changes to the Solicitation shall be answered solely through a written Solicitation Amendment.
8. Persons With Disabilities. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the Solicitation contact person. Requests shall be made as early as possible to allow time to arrange the accommodation.

C. Offer Preparation

1. Forms: No Facsimile, Telegraphic or Electronic Mail Offers. An Offer shall be submitted either on the forms provided in this Solicitation or their substantial equivalent. Any substitute document for the forms provided in this Solicitation must be legible and contain the same information requested on the forms, unless the solicitation indicates otherwise. A facsimile, telegraphic, mailgram or electronic mail Offer shall be rejected if submitted in response to requests for proposals or invitations for bids.
2. Typed or Ink: Corrections. The Offer shall be typed or in ink. Erasures, interlineations or

other modifications in the Offer shall be initialed in ink by the person signing the Offer. Modifications shall not be permitted after Offers have been opened except as otherwise provided under applicable law.

3. Evidence of Intent to be Bound. The Offer and Acceptance form within the Solicitation shall be submitted with the Offer and shall include a signature (or acknowledgement for electronic submissions, when authorized) by a person authorized to sign the Offer. The signature shall signify the Bidder's intent to be bound by the Offer and the terms of the Solicitation and that the information provided is true, accurate and complete. Failure to submit verifiable evidence of intent to be bound, such as an original signature, shall result in rejection of the Offer.

4. Exceptions to Terms and Conditions. All exceptions included with the Offer shall be submitted in a clearly identified separate section of the Offer in which the Bidder clearly identifies the specific paragraphs of the Solicitation where the exceptions occur. Any exceptions not included in such a section shall be without force and effect in any resulting Contract unless such exception is specifically accepted by the ASTO in a written statement. The Bidder's preprinted or standard terms will not be considered by the State as a part of any resulting Contract.

i. Invitation for Bids. An Offer that takes exception to a material requirement of any part of the Solicitation, including terms and conditions, shall be rejected.

ii. Request for Proposals. All exceptions that are contained in the Offer may negatively affect the State's proposal evaluation based on the evaluation criteria stated in the Solicitation or result in rejection of the Offer. An offer that takes exception to any material requirement of the solicitation may be rejected.

5. Subcontracts. Bidder shall clearly list any proposed subcontractors and the subcontractor's proposed responsibilities in the Offer.

6. Cost of Offer Preparation. The State will not reimburse any Bidder the cost of responding to a Solicitation.

7. Solicitation Amendments. Each Solicitation Amendment shall be signed with an original signature by the person signing the Offer, and shall be submitted no later than the Offer due date and time. Failure to return a signed copy of a Solicitation Amendment may result in rejection of the Offer.

8. Federal Excise Tax. The State of Arizona is exempt from certain Federal Excise Tax on manufactured goods. Exemption Certificates will be provided by the State.

9. Provision of Tax Identification Numbers. Bidders are required to provide their Arizona Transaction Privilege Tax Number and/or Federal Tax Identification number in the space provided on the Offer and Acceptance Form.

9.1 Employee Identification. Bidder agrees to provide an employee identification number or social security number for the purposes of reporting to appropriate taxing authorities, monies paid under this contract. If the federal identifier of the Bidder is a social security number, this number is being requested solely for tax reporting purposes and will be shared only with appropriate state and federal officials. This submission is mandatory under 26 U.S.C. § 6041A.

10. Identification of Taxes in Offer. The State of Arizona is subject to all applicable state and local transaction privilege taxes. All applicable taxes shall be included in the pricing offered in the solicitation. At all times, payment of taxes and the determination of applicable taxes are the sole responsibility of the contractor.

11. Disclosure. If the firm, business or person submitting this Offer has been debarred, suspended or otherwise lawfully precluded from participating in any public procurement activity, including being disapproved as a subcontractor with any Federal, state or local government, or if any such preclusion from participation from any public procurement activity is currently pending, the Bidder shall fully explain the circumstances relating to the preclusion or proposed preclusion in the Offer. The Bidder shall include a letter with its Offer setting forth the name and address of the governmental unit, the effective date of this suspension or debarment, the duration of the suspension or debarment, and the relevant circumstances relating to the suspension or debarment. If suspension or debarment is currently pending, a detailed description of all relevant circumstances including the details enumerated above shall be provided.

12. Solicitation Order of Precedence. In the event of a conflict in the provisions of this Solicitation, the following shall prevail in the order set forth below:

- | | |
|------|---|
| 12.1 | Special Terms and Conditions; |
| 12.2 | Uniform Terms and Conditions; |
| 12.3 | Statement or Scope of Work; |
| 12.4 | Specifications; |
| 12.5 | Attachments; |
| 12.6 | Exhibits; |
| 12.7 | Special Instructions to Bidders; |
| 12.8 | Uniform Instructions to Bidders; |
| 12.9 | Other documents referenced or included in the Solicitation. |

D. Submission of Offer

1. Sealed Envelope or Package. Each Offer shall be submitted to the submittal location identified in this Solicitation. Offers should be submitted in a sealed envelope or container. The envelope or container should be clearly identified with name of the Bidder and Solicitation number. The State may open envelopes or containers to identify contents if the envelope or container is not clearly identified.

2. Offer Amendment or Withdrawal. An Offer may not be amended or withdrawn after the Offer due date and time except as otherwise provided under applicable law.

3. Public Record. All Offers submitted and opened are public records and must be retained by the State. Offers shall be open to public inspection after Contract award, except for such Offers deemed to be confidential by the State. If a Bidder believes that information in its Offer should remain confidential, it shall indicate as confidential the specific information and submit a statement with its Offer detailing the reasons that the information should not be disclosed. Such reasons shall include the specific harm or prejudice which may arise. The State shall determine whether the identified information is confidential pursuant to the Arizona Procurement Code.

4. Non-collusion, Employment, and Services. By signing the Offer and Acceptance Form or other official contract form, the Bidder certifies that:

- i. The Bidder did not engage in collusion or other anti-competitive practices in connection with the preparation or submission of its Offer; and
- ii. The Bidder does not discriminate against any employee or applicant for employment or person to whom it provides services because of race, color, religion, sex, national origin, or disability, and that it complies with all applicable Federal, state and local laws and executive orders regarding employment.

E. Miscellaneous Considerations for Evaluation

1. Unit Price Prevails. In the case of discrepancy between the unit price or rate and the extension of that unit price or rate, the unit price or rate shall govern.
2. Prompt Payment Discount. Prompt payment discounts of thirty (30) days or more set forth in an Offer shall be deducted from the offer for the purposes of evaluating that price.
5. Offer Acceptance Period. A Bidder submitting an Offer under this Solicitation shall hold its Offer open for the number of days from the Offer due date that is stated in the Solicitation. If the Solicitation does not specifically state a number of days for Offer acceptance, the number of days shall be one hundred-twenty (120). If a Best and Final Offer is requested pursuant to a Request for Proposal, a Bidder shall hold its Offer open for one hundred-twenty (120) days from the Best and Final Offer due date.

F. Waiver and Rejection Rights.

Notwithstanding any other provision of the Solicitation, the State reserves the right to:

1. Waive any minor informality;
2. Reject any and all Offers or portions thereof; or
3. Cancel the Solicitation.

G. Award

1. Number or Types of Awards. The State reserves the right to make multiple awards or to award a Contract by individual line items or alternatives, by group of line items or alternatives, or to make an aggregate award, or regional awards, whichever is most advantageous to the State. If the ASTO determines that an aggregate award to one Bidder is not in the State's best interest, "all or none" Offers shall be rejected.
2. Contract inception. An Offer does not constitute a Contract nor does it confer any rights on the Bidder to the award of a Contract. A Contract is not created until the Offer is accepted in writing by the ASTO's (or designee) signature on the Offer and Acceptance Form. A notice of award or of the intent to award shall not constitute acceptance of the Offer.
3. Effective Date. The effective date of this Contract shall be the date that the ASTO or designee signs the Offer and Acceptance form or other official contract form, unless another date is specifically stated in the Contract.

H. Protests

A protest shall comply with and be resolved according to Arizona Revised Statutes, Title 41, Chapter 23, Article 9 and rules adopted there under. Protests shall be in writing and be filed with the ASTO. A protest of a Solicitation shall be received by the ASTO before the Offer due date. A protest of a proposed award or of an award shall be filed within ten (10) days after the protester knows or should have known the basis of the protest. A protest shall include:

- 1.1 The name, address and telephone number of the protester;
- 1.2 The signature of the protester or its representative;

- 1.3 Identification of the purchasing agency and the Solicitation or Contract number;
- 1.4 A detailed statement of the legal and factual grounds of the protest including copies of relevant documents; and
- 1.5 The form of relief requested.

SPECIAL TERMS AND CONDITIONS

1 Term of Contract

1.1 The term of contract shall commence on and from April 1, 2014 and shall remain in effect for a period of three (3) years thereafter unless terminated, canceled or extended as otherwise provided herein.

1.2 The State reserves the right to extend the contract up to a maximum of twenty four (24) months.

1.3 The contract shall not bind nor purport to bind the State for any contractual commitment in excess of the original contract period. The ASTO shall have the right, at its sole option, to renew the contract for two (2) one year renewals. If the ASTO exercises such rights, all terms, conditions and provisions of the original contract shall remain the same and apply during the renewal period.

2 Project Management

2.1 The Contractor shall appoint a project manager to be responsible for the planning; conducting progress; and successful completion of all activities during the contract period.

2.2 The Contractor shall, within seven (7) days after the award of the contract, submit a written identification and notification to the ASTO of the name, title, address, and telephone number of one (1) individual within its organization as a duly authorized representative to whom all correspondence, official notices, and requests related to the contractor's performance pursuant to the contract shall be addressed. The Contractor shall have the right to change or substitute the name of the individual described above as deemed necessary with written approval of the ASTO.

2.3 The ASTO shall provide the contractor with the name of a contact person who will coordinate all information to and/or from the Contractor.

3 Insurance

3.1 The Contractor shall procure and maintain until all of their obligations have been discharged, including any warranty periods under this Contract, are satisfied, insurance against claims for injury to persons or damage to property which may arise from or in connection with the performance of the work hereunder by the Contractor, his agents, representatives, employees or subcontractors.

3.1.1 The insurance requirements herein are minimum requirements for this Contract and in no way limit the indemnity covenants contained in this Contract. The State of Arizona in no way warrants that the minimum limits contained herein are sufficient to protect the Contractor from liabilities that might arise out of the performance of the work

under this contract by the Contractor, its agents, representatives, employees or subcontractors, and Contractor is free to purchase additional insurance. The custody bank shall furnish the State certification from insurer(s) for coverage of bank employees with limits of liability not less than those stated below.

3.1.1.1 Commercial General Liability (Policy shall include bodily injury, property damage, personal injury and broad form contractual liability coverage.)	
General Aggregate	\$2,000,000
Products - Completed Operations Aggregate	\$1,000,000
Personal and Advertising Injury	\$1,000,000
Blanket Contractual Liability - Written and Oral	\$1,000,000
Fire Legal Liability	\$ 50,000
Each Occurrence	\$1,000,000

3.1.2 The policy shall be endorsed to include the following additional insured language:

“The State of Arizona, its departments, agencies, boards, commissions, universities and its officers, agents, and employees shall be named as additional insured’s with respect to liability arising out of the activities performed by or on behalf of the Contractor”.

3.1.3 Policy shall contain a waiver of subrogation against the State of Arizona, its departments, agencies, boards, commissions, universities and its officers, officials, agents, and employees for losses arising from work performed by or on behalf of the Contractor.

3.2 Professional Liability (Errors and Omissions Liability)

Each Claim	\$1,000,000
Annual Aggregate	\$2,000,000

1.2.1 In the event that the professional liability insurance required by this Contract is written on a claims-made basis, Contractor warrants that any retroactive date under the policy shall precede the effective date of this Contract; and that either continuous coverage will be maintained or an extended discovery period will be exercised for a period of two (2) years beginning at the time work under this Contract is completed.

1.2.2 The policy shall cover professional misconduct or lack of ordinary skill for those positions defined in the Scope of Work of this contract.

4 Disaster Recovery

4.1 The successful Offeror is required to maintain a tested disaster recovery and business continuity plan throughout the term of the contract resulting from this Request for Proposal. This plan, along with any modifications or testing results will be available for review by the ASTO with notice.

4.2 At a minimum, such disaster recovery plan will include information regarding the steps taken to avoid interruptions in service availability to the State of Arizona. The plan must address the recovery time objective (RTO), the recovery point objective (RPO), the establishment of a minimum level of critical support, and a maximum tolerable downtime. Additionally, the plan will include information regarding at least one alternative processing facility, its capacity and capability levels, along with specific methods to provide access to information if the primary system is out of service.

5 SSAE 16

5.1 The successful bidder must provide the most current report by its independent auditors of its internal controls. The SSAE 16 report must cover the services provided by the contractor resulting from this document. If a different report is required for covered services, please include the report and a brief narrative describing the report and its use.

UNIFORM TERMS AND CONDITIONS

1 Contract Interpretation

1.1 Arizona Law. The Arizona law applies to this Contract including, where applicable, the Uniform Commercial Code as adopted by the State of Arizona and the Arizona Procurement Code, Arizona Revised Statutes (A.R.S.) Title 41, Chapter 23, and its implementing rules, Arizona Administrative Code (A.A.C.) Title 2, Chapter 7.

1.2 Implied Contract Terms. Each provision of law and any terms required by law to be in this Contract are a part of this Contract as if fully stated in it.

1.3 Contract Order of Precedence. In the event of a conflict in the provisions of the Contract, as accepted by the State and as they may be amended, the following shall prevail in the order set forth below:

- 1.3.1 Statement and/or Scope of Work;
- 1.3.2 Special Terms and Conditions;
- 1.3.3 Uniform Terms and Conditions;
- 1.3.4 Documents referenced or included in the Solicitation.

1.4 Relationship of Parties. The Contractor under this Contract is an independent Contractor. Neither party to this Contract shall be deemed to be the employee or agent of the other party to the Contract.

1.5 Severability. The provisions of this Contract are severable. Any term or condition deemed illegal or invalid shall not affect any other term or condition of the Contract.

1.6 No Parole Evidence. This Contract is intended by the parties as a final and complete expression of their agreement. No course of prior dealings between the parties and no usage of the trade shall supplement or explain any terms used in this document and no other understanding either oral or in writing shall be binding.

1.7 No Waiver. Either party's failure to insist on strict performance of any term or condition of the Contract shall not be deemed a waiver of that term or condition even if the party accepting or acquiescing in the nonconforming performance knows of the nature of the performance and fails to object to it.

1.8 Arbitration. The parties to this Agreement agree to resolve all disputes arising out of or relating to this Agreement through arbitration, after exhausting applicable administrative review, to the extent required by A.R.S. § 12-1518 except as may be required by other applicable statutes.

1.9 Counterparts. The parties may execute this Agreement in two or more counterparts, each of which shall be deemed an original and together which shall constitute one and the same document.

2 Contract administration and operation.

2.1 Records. Under A.R.S. § 35-214 and § 35-215, the Contractor shall retain and shall contractually require each subcontractor to retain all data and other “records” relating to the acquisition and performance of the Contract for a period of five years after the completion of the Contract. All records shall be subject to inspection and audit by the State at reasonable times. Upon request, the Contractor shall produce a legible copy of any or all such records.

2.2 Non-Discrimination. Contractor shall comply with Executive Order 2009-9, which mandates that all persons, regardless of race, color, religion, sex, age, or national origin not mentioned in Order shall have equal access to employment opportunities, and all other applicable state and Federal employment laws, rules, and regulations, including the Americans with Disabilities Act. Contractor shall take affirmative action to ensure that applicants for employment and employees are not discriminated against due to race, creed, color, religion, sex, national origin or disability.

2.3 Audit. Pursuant to ARS § 35-214, at any time during the term of this Contract and five (5) years thereafter, the Contractor’s or any subcontractor’s books and records shall be subject to audit by the State and, where applicable, the Federal Government, to the extent that the books and records relate to the performance of the Contract or Subcontract.

2.4 [Intentionally Omitted]

2.5 Notices. Notices to the Contractor required by this Contract shall be made by the State to the person indicated on the Offer and Acceptance form submitted by the Contractor unless otherwise stated in the Contract. Notices to the State required by the Contract shall be made by the Contractor to the Solicitation Contact Person indicated on the Solicitation cover sheet, unless otherwise stated in the Contract. An authorized Procurement Officer and an authorized Contractor representative may change their respective person to whom notice shall be given by written notice to the other and an amendment to the Contract shall not be necessary.

2.6 Advertising, Publishing and Promotion of Contract. The Contractor shall not use, advertise or promote information for commercial benefit concerning this Contract without the prior written approval of the ASTO.

2.7 Property of the State. Any materials, including reports, computer programs and other deliverables, created under this Contract are the sole property of the State. The Contractor is not entitled to a patent or copyright on those materials and may not transfer the patent or copyright to anyone else. The Contractor shall not use or release these materials without the prior written consent of the State.

2.8 Ownership of Intellectual Property. Any and all intellectual property, including but not limited to copyright, invention, trademark, trade name, service mark, and/or trade secrets created or conceived pursuant to or as a result of this contract and any related subcontract (“Intellectual Property”), shall be work made for hire and the State shall be considered the creator of such Intellectual Property. The agency, department, division, board or commission of the State of Arizona requesting the issuance of the contract shall own (for and on behalf of the State) the entire right, title and interest to the Intellectual Property throughout the world. Contractor shall notify the State, within thirty (30) days, of the creation of any Intellectual Property by it or its subcontractor(s). Contractor, on behalf of itself and any subcontractor(s), agrees to execute any and all document(s) necessary to assure ownership of the Intellectual Property vests in the State and shall take no affirmative actions that might have the effect of vesting all or part of the Intellectual Property in any entity other than the State. The Intellectual Property shall not be disclosed by contractor or its subcontractor(s) to any entity not the State without the express written authorization of the agency, department, division, board or commission of the State of

Arizona requesting the issuance of this contract.

3 Costs and Payments

3.1 Payments. Payments shall comply with the requirements of A.R.S. Titles 35 and 41, Net 30 days. Upon receipt and acceptance of goods or services, the Contractor shall submit a complete and accurate invoice for payment from the State within thirty (30) days.

3.2 Delivery. Unless stated otherwise in the Contract, all prices shall be F.O.B. Destination and shall include all freight delivery and unloading at the destination.

3.3 Applicable Taxes.

3.3.1 Payment of Taxes. The Contractor shall be responsible for paying all applicable taxes.

3.3.2 State and Local Transaction Privilege Taxes. The State of Arizona is subject to all applicable state and local transaction privilege taxes. Transaction privilege taxes apply to the sale and are the responsibility of the seller to remit. Failure to collect such taxes from the buyer does not relieve the seller from its obligation to remit taxes.

3.3.3 Tax Indemnification. Contractor and all subcontractors shall pay all federal, state and local taxes applicable to its operation and any persons employed by the Contractor. Contractor shall, and require all subcontractors to hold the State harmless from any responsibility for taxes, damages and interest, if applicable, contributions required under federal, and/or state and local laws and regulations and any other costs including transaction privilege taxes, unemployment compensation insurance, Social Security and Worker's Compensation.

3.3.4 IRS W9 Form. In order to receive payment the Contractor shall have a current IRS W9 Form on file with the State of Arizona, unless not required by law.

3.4 Availability of Funds for the next State fiscal year. Funds may not presently be available for performance under this Contract beyond the current state fiscal year. No legal liability on the part of the State for any payment may arise under this Contract beyond the current state fiscal year until funds are made available for performance of this Contract.

3.5 Availability of Funds for the current State fiscal year. Should the State Legislature enter back into session and reduce the appropriations for any reason and these goods or services are not funded, the State may take any of the following actions:

3.5.1 Accept a decrease in price offered by the contractor;

3.5.2 Cancel the Contract;

3.5.3 Cancel the Contract and re-solicit the requirements.

4 Contract changes

4.1 Amendments. This Contract is issued under the authority of the ASTO. The Contract may be modified only through a Contract Amendment within the scope of the Contract. Changes to the Contract, including the addition of work or materials, the revision of payment terms, or the substitution of work or materials, directed by a person who is not specifically authorized by the ASTO in writing or made unilaterally by the Contractor are violations of the Contract and of applicable law. Such changes, including unauthorized written Contract Amendments shall be void and without effect, and the Contractor shall not be entitled to any claim under this Contract based on those changes.

4.2 Subcontracts. The Contractor shall not enter into any Subcontract under this Contract for the performance of this contract without the advance written approval of the ASTO. The Contractor shall clearly list any proposed subcontractors and the subcontractor's proposed responsibilities. The Subcontract shall incorporate by reference the terms and conditions of this Contract.

4.3 Assignment and Delegation. Contractor acknowledges that Contractor's experience and expertise is a substantial consideration in the ASTO's review of the Offer. The Contractor shall not assign any right nor delegate any duty under this Contract without the prior written approval of the ASTO.

5 Risk and Liability

5.1 Risk of Loss. The Contractor shall bear all loss of conforming material covered under this Contract until received by authorized personnel at the location designated in the purchase order or Contract. Mere receipt does not constitute final acceptance. The risk of loss for nonconforming materials shall remain with the Contractor regardless of receipt.

5.2 Indemnification

5.2.1 Contractor/Vendor Indemnification (Not Public Agency). The parties to this contract agree that the State of Arizona, its' departments, agencies, boards and commissions shall be indemnified and held harmless by the contractor for the vicarious liability of the State as a result of entering into this contract. However, the parties further agree that the State of Arizona, its' departments, agencies, boards and commissions shall be responsible for its' own negligence. Each party to this contract is responsible for its' own negligence.

5.2.2 The State of Arizona is not authorized to indemnify the Contractor.

5.2.3 Public Agency Language Only. Each party (as 'indemnitor') agrees to indemnify, defend, and hold harmless the other party (as 'indemnitee') from and against any and all claims, losses, liability, costs, or expenses (including reasonable attorney's fees) (hereinafter collectively referred to as 'claims') arising out of bodily injury of any person (including death) or property damage but only to the extent that such claims which result in vicarious/derivative liability to the indemnitee, are caused by the act, omission, negligence, misconduct, or other fault of the indemnitor, its' officers, officials, agents, employees, or volunteers.

5.3 Indemnification - Patent and Copyright. The Contractor shall indemnify and hold harmless the State against any liability, including costs and expenses, for infringement of any patent, trademark or copyright arising out of Contract performance or use by the State of materials furnished or work performed under this Contract. The State shall reasonably notify the Contractor of any claim for which it may be liable under this paragraph. If the contractor is insured pursuant to A.R.S. § 41-621 and § 35-154, this section shall not apply.

5.4 Force Majeure

5.4.1 Except for payment of sums due, neither party shall be liable to the other nor deemed in default under this Contract if and to the extent that such party's performance of this Contract is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the party affected and occurs without its fault or negligence. Without limiting the foregoing, force majeure includes acts of God; acts of the public enemy; war; riots; strikes; mobilization; labor disputes; civil disorders; fire; flood; lockouts; injunctions-intervention-acts; or failures or refusals to act by government authority; and other similar occurrences beyond the control of the party declaring force

majeure which such party is unable to prevent by exercising reasonable diligence.

5.4.2 Force Majeure shall not include the following occurrences:

5.4.2.1 Late delivery of equipment or materials caused by congestion at a manufacturer's plant or elsewhere, or an oversold condition of the market;

5.4.2.2 Late performance by a subcontractor unless the delay arises out of a force majeure occurrence in accordance with this force majeure term and condition; or

5.4.2.3 Inability of either the Contractor or any subcontractor to acquire or maintain any required insurance, bonds, licenses or permits.

5.4.3 If either party is delayed at any time in the progress of the work by force majeure, the delayed party shall notify the other party in writing of such delay, as soon as is practicable and no later than the following working day of the commencement thereof and shall specify the causes of such delay in such notice. Such notice shall be delivered or mailed certified-return receipt and shall make a specific reference to this article, thereby invoking its provisions. The delayed party shall cause such delay to cease as soon as practicable and shall notify the other party in writing when it has done so. The time of completion shall be extended by Contract Amendment for a period of time equal to the time that results or effects of such delay prevent the delayed party from performing in accordance with this Contract.

5.4.4 Any delay or failure in performance by either party hereto shall not constitute default hereunder or give rise to any claim for damages or loss of anticipated profits if, and to the extent that such delay or failure is caused by force majeure.

5.5 Third Party Antitrust Violations. The Contractor assigns to the State any claim for overcharges resulting from antitrust violations to the extent that those violations concern materials or services applied by third parties to the Contractor, toward fulfillment of this Contract.

6 Warranties

6.1 Liens. The Contractor warrants that the materials supplied under this Contract are free of liens and shall remain free of liens.

6.2 Quality. Unless otherwise modified elsewhere in these terms and conditions, the Contractor warrants that, for one year after acceptance by the State of the materials, they shall be:

6.2.1 Of a quality to pass without objection in the trade under the Contract description;

6.2.2 Fit for the intended purposes for which the materials are used;

6.2.3 Within the variations permitted by the Contract and are of even kind, quantity, and quality within each unit and among all units;

6.2.4 Adequately contained, packaged and marked as the Contract may require; and

6.2.5 In conformance to the written promises or affirmations of fact made by the Contractor.

6.3 Fitness. The Contractor warrants that any material supplied to the State shall fully conform to all requirements of the Contract and all representations of the Contractor, and shall be fit for all purposes and uses required by the Contract.

6.4 Inspection/Testing. The warranties set forth in subparagraphs 7.1 through 7.3 of this paragraph are not affected by inspection or testing of or payment for the materials by the State.

6.5 Compliance With Applicable Laws. The materials and services supplied under this Contract shall comply with all applicable federal, state and local laws, and the Contractor shall maintain all applicable licenses and permit requirements.

6.6 Survival of Rights and Obligations after Contract Expiration or Termination

6.6.1 Contractors Representations and Warranties. All representations and warranties made by the Contractor under this Contract shall survive the expiration or termination hereof. In addition, the parties hereto acknowledge that pursuant to A.R.S. § 12-510, except as provided in A.R.S. § 12-529, the State is not subject to or barred by any limitations of actions prescribed in A.R.S. Title 12, Chapter 5.

6.6.2 Purchase Orders. The Contractor shall, in accordance with all terms and conditions of the Contract, fully perform and shall be obligated to comply with all purchase orders received by the Contractor prior to the expiration or termination hereof, unless otherwise directed in writing by the ASTO, including, without limitation, all purchase orders received prior to but not fully performed and satisfied at the expiration or termination of this Contract.

6.7 Contractors with no operations in Arizona–Federal Immigration and Nationality Act. The contractor shall comply with all federal, state and local immigration laws and regulations relating to the immigration status of their employees during the term of the contract. Further, the contractor shall flow down this requirement to all subcontractors utilized during the term of the contract. The State shall retain the right to perform random audits of contractor and subcontractor records or to inspect papers of any employee thereof to ensure compliance. Should the State determine that the contractor and/or any subcontractors be found noncompliant, the State may pursue all remedies allowed by law, including, but not limited to; suspension of work, termination of the contract for default and suspension and/or debarment of the contractor.

6.8 Contractors with Operations in Arizona.

7.8.1 By entering into the contract, the contractor warrants compliance with the Federal immigration and Nationality Act (FINA) and all other Federal immigration laws and regulations related to the immigration status of its employees. The contractor shall obtain statements from its subcontractors certifying compliance and shall furnish the statements to the Procurement Officer upon request. The contractor and its subcontractors shall also maintain Employment Eligibility Verification forms (I-9) as required by the U.S. Department of Labor's Immigration and Control Act), for all Employees performing work under the contract. I-9 forms are available for download at USCIS.GOV.

6.8.2 Compliance requirements for A.R.S. § 41-4401–immigration laws and E-Verify requirement.

6.8.2.1. Contractors warrants compliance with all Federal immigration laws and regulations relating to employees and warrants its compliance with Section A.R.S. § 23-214, Subsection A. (That subsection reads: "After December 31, 2007, every employer, after hiring an employee, shall verify the employment eligibility of the employee through the E-Verify program.)

6.8.2.2. A breach of a warranty regarding compliance with immigration laws and regulations shall be deemed a material breach of the contract and the Contractor may be subject to penalties up to and including termination of the Agreement.

6.8.2.3. The Department retains the legal right to inspect the papers of any employee who works on the Agreement to ensure that Contractor complying with

the warranty under paragraph 7.9.2.1.

7 State's Contractual Remedies

7.1 Right to Assurance. If the State in good faith has reason to believe that the Contractor does not intend to, or is unable to perform or continue performing under this Contract, the ASTO may demand in writing that the Contractor give a written assurance of intent to perform. Failure by the Contractor to provide written assurance within the number of days specified in the demand may, at the State's option, be the basis for terminating the Contract under the Uniform Terms and Conditions or other rights and remedies available by law or provided by the contract.

7.2 Stop Work Order

7.2.1 The State may, at any time, by written order to the Contractor, require the Contractor to stop all or any part, of the work called for by this Contract for period(s) of days indicated by the State after the order is delivered to the Contractor. The order shall be specifically identified as a stop work order issued under this clause. Upon receipt of the order, the Contractor shall immediately comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the order during the period of work stoppage.

7.2.2 If a stop work order issued under this clause is canceled or the period of the order or any extension expires, the Contractor shall resume work. The ASTO shall make an equitable adjustment in the delivery schedule or Contract price, or both, and the Contract shall be amended in writing accordingly.

7.3 Non-exclusive Remedies. The rights and the remedies of the State under this Contract are not exclusive.

7.4 Nonconforming Tender. Materials or services supplied under this Contract shall fully comply with the Contract. The delivery of materials or services or a portion of the materials or services that do not fully comply constitutes a breach of contract. On delivery of nonconforming materials or services, the State may terminate the Contract for default under applicable termination clauses in the Contract, exercise any of its rights and remedies under the Uniform Commercial Code, or pursue any other right or remedy available to it.

7.5 Right of Offset. The State shall be entitled to offset against any sums due the Contractor, any expenses or costs incurred by the State, or damages assessed by the State concerning the Contractor's non-conforming performance or failure to perform the Contract, including expenses, costs and damages described in the Uniform Terms and Conditions.

8 Contract Termination

8.1 Cancellation for Conflict of Interest. Pursuant to A.R.S. § 38-511, the State may cancel this Contract within three (3) years after Contract execution without penalty or further obligation if any person significantly involved in initiating, negotiating, securing, drafting or creating the Contract on behalf of the State is or becomes at any time while the Contract or an extension of the Contract is in effect an employee of or a consultant to any other party to this Contract with respect to the subject matter of the Contract. The cancellation shall be effective when the Contractor receives written notice of the cancellation unless the notice specifies a later time. If the Contractor is a political subdivision of the State, it may also cancel this Contract as provided in A.R.S. § 38-511.

8.2 Gratuities. The State may, by written notice, terminate this Contract, in whole or in part, if the State determines that employment or a Gratuity was offered or made by the Contractor or a representative of the Contractor to any officer or employee of the State for the purpose of influencing the outcome of the procurement or securing the Contract, an amendment to the

Contract, or favorable treatment concerning the Contract, including the making of any determination or decision about contract performance. The State, in addition to any other rights or remedies, shall be entitled to recover exemplary damages in the amount of three times the value of the Gratuity offered by the Contractor.

8.3 Suspension or Debarment. The State may, by written notice to the Contractor, immediately terminate this Contract if the State determines that the Contractor has been debarred, suspended or otherwise lawfully prohibited from participating in any public procurement activity, including but not limited to, being disapproved as a subcontractor of any public procurement unit or other governmental body. Submittal of an offer or execution of a contract shall attest that the contractor is not currently suspended or debarred. If the contractor becomes suspended or debarred, the contractor shall immediately notify the State.

8.4 Termination for Convenience. The State reserves the right to terminate the Contract in whole or in part at any time, when in the best interests of the State without penalty or recourse. Upon receipt of the written notice, the Contractor shall stop all work, as directed in the notice, notify all subcontractors of the effective date of the termination and minimize all further costs to the State. In the event of termination under this paragraph, all documents, data and reports prepared by the Contractor under the Contract shall become the property of and be delivered to the State upon demand. The Contractor shall be entitled to receive just and equitable compensation for work in progress, work completed and materials accepted before the effective date of the termination. The cost principles and procedures provided in A.A.C. R2-7-701 shall apply.

8.5 Termination for Default

8.5.1 In addition to the rights reserved in the contract, the State may terminate the Contract in whole or in part due to the failure of the Contractor to comply with any term or condition of the Contract, to acquire and maintain all required insurance policies, bonds, licenses and permits, or to make satisfactory progress in performing the Contract. The ASTO shall provide written notice of the termination and the reasons for it to the Contractor.

8.5.2 Upon termination under this paragraph, all goods, materials, documents, data and reports prepared by the Contractor under the Contract shall become the property of and be delivered to the State on demand.

8.5.3 The State may, upon termination of this Contract, procure, on terms and in the manner that it deems appropriate, materials or services to replace those under this Contract. The Contractor shall be liable to the State for any excess costs incurred by the State in procuring materials or services in substitution for those due from the Contractor.

8.6 Continuation of Performance Through Termination. The Contractor shall continue to perform, in accordance with the requirements of the Contract, up to the date of termination, as directed in the termination notice.

Exhibit 1

ESTIMATED FEES

1. Every Custody provider has a different fee structure. To help us evaluate your response please quote ***unbundled*** fees for each of the services referenced, and fees for any service packages that may be appropriate. In addition, please provide a comprehensive, bundled fee proposal for the Mutual Funds and Endowment. Please refer to the fund account structure on page 6 when calculating your fee proposals.
 - a. Separate account portfolios (domestic equity, fixed income);
 - b. Line item accounts;
 - c. Third Party Mutual Fund Transactions;
 - d. Minimum Annual Fee (if applicable);
 - e. Analytic and performance calculation reports and services;
 - f. Monthly Income Distributions
 - g. Wires, ACH;
 - h. Assets under custody;
 - i. Transactions/settlements for domestic, foreign (DTC, FED, Physicals, Mortgage Pay downs, etc.);
 - j. On-line data access;
 - k. Expense ratio for short-term investment vehicle;
 - l. All other services and fees (please provide specific details of each)
2. Can your firm provide a flat fee structure? If so, what fee would you propose?
3. Are you willing to guarantee your fees for a fixed number of years?
4. List proposed fee split structure for securities lending income? Will that cover all anticipated costs under this contract?
5. Please note, that failure to execute any of the scope of work provisions, may result in a financial penalty to the successful bidder of a minimum of one day of securities lending income, multiplied by the amount of days that it takes to correct the failure to execute a scope of work provision. For example, if it takes 10 days to correct an accounting error or performance reporting error, a minimum of 10 days of securities lending income may be forfeited by the successful bidder.